

ORIGINAL  
FILE

BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

The Allowance For Funds Used  
During Construction (AFUDC) Rate  
Properly Charged By Dominant  
Carriers For Ratemaking and  
Other Purposes

**RM 7626**

SWBT supports Ameritech's Petition for Rulemaking and the position asserted by the United States Telephone Association (USTA) in its Comments. The Commission's requirement that the "compound prime rate of interest be used for accruing AFUDC" is based on the assumption that prime rate debt financing is used to fund construction projects. However, SWBT primarily finances its construction projects through internally generated funds consisting of a

combination of debt and equity.<sup>1</sup> Since the AFUDC should "compensate investors for the use of their funds during construction,"<sup>2</sup> the AFUDC rate should be set at the overall cost of capital rate. This is consistent with the actual financing of construction projects.

## II. INCLUSION OF LONG TERM PLANT UNDER CONSTRUCTION.

Currently the Commission disallows long term plant under construction in the ratebase (Account 2004). Allowing the inclusion of Account 2004 in the ratebase would be an appropriate means of correcting the AFUDC rate issue. Such an inclusion of long term plant under construction would allow for the full recovery of the cost of funds used for construction.

The Commission's decisions concerning ratebase components are premised upon the standard that investors are entitled to a return on telephone plant "used and useful" in providing telephone service. The Commission's "used and useful" standard is the basis for establishing rates and denotes property necessary to the efficient conduct of SWBT's business currently or within a reasonable future

---

<sup>1</sup>On page 4 of its Petition, Ameritech correctly noted that telephone companies generally finance their construction programs using a combination of debt and equity.

<sup>2</sup>Illinois Bell Tel. Co. v. FCC, 911 F.2d 776, 782 (D.C. Cir. 1990).

period. The inclusion of long term plant under construction clearly meets the "used and useful" standard because the ratepayer derives a direct benefit from long term plant under construction. This benefit includes the ability of the related asset to be used within a reasonable time.<sup>3</sup>

Often, long term plant under construction is placed in useful service shortly after the expiration of the one year limitation for short-term plant under construction. Thus, the one year standard is arbitrary and not reflective of the true benefit derived by the ratepayer. Furthermore, as demonstrated by Ameritech,<sup>4</sup> the capitalization of AFUDC results in higher rates for ratepayers over the life of the plant once it is placed in service.

The inclusion of Account 2004 "Telecommunications Plant Under Construction - Long Term" in the ratebase would provide an incentive to improve the telecommunications infrastructure by providing the availability of back-up components to maintain service quality and the ability for opportune investment timing with reduced financing costs. The ratepayer would thereby benefit.

---

<sup>3</sup>See, Comments of USTA in In the Matter of Amendment of Part 65 of the Commission's Rules to Prescribe Components of the Rate Bases and Net Incomes of Dominant Carriers, CC Docket 86-497, filed March 17, 1987.

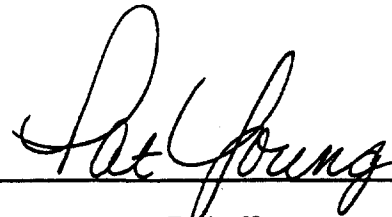
<sup>4</sup>Ameritech's Comments, Attachment A-1.

CONCLUSION

SWBT supports Ameritech's Petition for Rulemaking  
but recommends the inclusion of August 2004 in the database

CERTIFICATE OF SERVICE

I, Pat Young, hereby certify that the foregoing  
"Comments of Southwestern Bell Telephone Company" in Docket No.  
RM-7626 has been served this 21st day of March, 1991 to the  
Parties of Record.

A handwritten signature in cursive script, reading "Pat Young", is written over a horizontal line.

Pat Young

March 21, 1991

Ameritech Operating Companies  
Floyd S. Keene  
Michael S. Pabian  
30 South Wacker Drive  
39th Floor  
Chicago, IL 60606

Alfred Winchell Whittaker  
Kirkland & Ellis  
655 Fifteenth Street, N.W.  
Suite 1200  
Washington, D.C. 20005

Downtown Copy Center  
1114 21st Street, N.W.  
Washington, D.C. 20036